E-015/M-93-153 ORDER PARTIALLY APPROVING AND PARTIALLY DENYING RATE PROPOSAL

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Tom Burton	Commissioner
Cynthia A. Kitlinski	Commissioner
Dee Knaak	Commissioner
Norma McKanna	Commissioner

In the Matter of the Petition of Minnesota Power for Approval of an Interruptible Rate for the Large Power Class

ISSUE DATE: June 17, 1993

DOCKET NO. E-015/M-93-153

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PROCEDURAL HISTORY

On February 26, 1993, Minnesota Power (or the Company) filed a petition for approval of an interruptible rate for its Large Power Class.

Between April 2 and April 5, 1993, comments were filed by the Department of Public Service (the Department), the Residential Utilities Division of the Office of the Attorney General (RUD-OAG), National Steel Pellet Company (National Steel), Potlatch Corporation (Potlatch), and five taconite companies filing jointly (the Taconites).

Between April 15 and April 19, 1993, reply comments were filed by the RUD-OAG, the Department and Minnesota Power.

The matter came before the Commission for consideration on May 27, 1993.

FINDINGS AND CONCLUSIONS

I. The Proposed Interruptible Rate

Minnesota Power serves five taconite mining companies and four paper companies under its Large Power Class. Together, these companies take 600 MW of Minnesota Power's 1300 MW of capacity.

The taconite industry has faced uncertain economic conditions in its recent history. Currently, iron ore prices are depressed and the Minnesota industry faces significant competition. Paper prices, too, have reflected the general recession in northern Minnesota.

Minnesota Power devised its Interruptible Rate in response to the economic conditions affecting its Large Power constituents. Under the rate proposal, Minnesota Power would convert 100 MW of firm capacity to interruptible service for its Large Power customers. Large Power customers who choose the rate would receive a reduction of $5.00 per kW per month from their demand charge. In return, Minnesota Power would have the right to interrupt customers' service at the Company's discretion. Minnesota Power anticipates that interruptions would normally occur when the Company expects to incur a system peak in excess of its Mid-Continent Area Power Pool accredited generating capacity, or when the reliability of the Company's or MAPP's system is endangered.

Minnesota Power's load is currently in balance with its generating capacity. The Company therefore proposes selling capacity freed under the Interruptible Rate to third parties. Such sales would offset reduced revenue from the Interruptible Rate discounts.

If customers oversubscribe the 100 MW offered under the Interruptible Rate, Minnesota Power would allocate the available capacity. The allocation method would be based on participating customers' contractual demand obligations.

Under the proposed rider, customers who choose the Interruptible Rate would be obliged to carry a contract demand commitment for a minimum of four years. For an additional 11 years, customers would be required to purchase not less than the amount of their interruptible load, to the extent the customers have electric service requirements. For the same total of 15 years, Minnesota Power would have the right to match any competitive offer for electric service in excess of a Large Power customer's interruptible load.

The cost of energy under the interruptible rate proposal would be billed at 100% of the Company's incremental energy cost if the energy were generated by the Company. If the energy were purchased from third parties, the cost would be billed at 110% of the Company's incremental energy cost.

Minnesota Power included an incentive proposal as part of its Interruptible Rate rider. Under this plan, any over- or under-recovery arising from the interruptible rate proposal would be shared on a 50%/50% basis between shareholders and ratepayers. Amounts allocated to ratepayers would be placed in a deferred Tracker Account, with carrying charges, for inclusion in the next general rate case.

II. Comments of the Parties

A. Minnesota Power

Minnesota Power stated that the Interruptible Rate would help its economically stressed Large Power customers to remain competitive and thus to remain on the Company system. Retention of these large customers would benefit the Company and all of its ratepayers.

The Company explained that its proposal was an innovative method of structuring a rate in a balanced load/capacity situation. Selling freed capacity to third parties was a means of offsetting revenue losses from the discounted rate, allowing the Company to retain its Large Power customers without harm to other ratepayers.

The Company stated that a long-term commitment under the rider was necessary as a revenue-stabilizing measure which will prevent future losses of contributions to fixed costs.

Minnesota Power stated that its incentive proposal was a modest means of spurring additional discussion and interest in incentive regulation. According to the Company, the plan would provide the incentive to minimize any losses and maximize any gains by making favorable bulk power sale transactions.

B. The Department

The Department generally supported the Company's Interruptible Rate proposal, with two modifications. The Department opposed the incentive plan offered under the rider. According to the Department, there is no reason that ratepayers should bear the risk of under-recovery between rate cases. The Department suggested that lowering the discount to minimize risk would be a better alternative to the incentive plan.

The Department also recommended that the Company be required to report the capacity sales that it makes as a result of the Interruptible Rate proposal.

C. The RUD-OAG

The RUD-OAG recommended that the Commission approve the Company's rate proposal, but reject the incentive plan offered as part of it. The RUD-OAG stated that the Interruptible Rate rider is an appropriate means of assisting economically distressed northern Minnesota customers. The RUD-OAG opposed the incentive proposal because Minnesota Power, not its ratepayers, will be assessing the bulk power market and making the decisions to offer freed capacity to third parties. The Company, not the ratepayers, should bear corresponding risks.

D. The Taconites

Although the Taconites were in favor of the basic Interruptible Rate proposal, they were opposed to the incentive plan. The Taconites believed that the Company, not ratepayers, should bear the risk of any revenue shortfall.

The Taconites also questioned the necessity for the Company's 15 year right to offer any type of electric service to the Large Power customers. The Taconites stated that this requirement was not naturally connected to the Interruptible Rate rider, but was grafted onto the proposal in an effort to gain leverage over the Large Power customers. Allowing Minnesota Power to match any offer from an outside source was unsatisfactory, because a right of matching discourages competitive offers.

E. National Steel

Although National Steel is one of the five Taconites who offered joint comments, National Steel offered separate comments as well.

National Steel urged the Commission to approve Minnesota Power's proposed Interruptible Rate rider. National Steel stated that its very survival could depend on a reduction in its energy costs through Minnesota Power's proposal. If National Steel closed, the loss of approximately 734 jobs would have a serious effect on the depressed northern Minnesota economy.

F. Potlatch

Potlatch, a paper company, is a Large Power customer of Minnesota Power and is thus eligible for the Interruptible Rate. Potlatch would not avail itself of the Interruptible Rate, however, because efficient operation of its plant does not allow for power interruptions.

Although Potlatch was not opposed to Minnesota Power's Interruptible Rate proposal, it did oppose the incentive proposal under the rider. Potlatch indicated that as a Minnesota Power ratepayer it opposed sharing the risk of revenue shortfall.

III. Commission Analysis

The Commission finds that Minnesota Power's Interruptible Rate proposal is for the most part an appropriate means of meeting the needs of its Large Power customers. The discounted rate should assist the economically distressed Large Power customers, thus retaining these important customers for the Company. The proposal protects other ratepayers from the effects of the reduced load and revenue by providing for capacity sales to third parties.

The Commission finds that the long-term commitment required under the proposal is appropriate. The contract terms under the Interruptible Rate proposal should provide rate stability for

Large Power customers who choose it. The contractual commitment should also allow the Company to make long-term decisions regarding its capacity needs and its capacity sales to third parties.

The Commission does not find that the incentive proposal, as structured, is an appropriate part of the Interruptible Rate tariff. Since the Company will be in the position to make the decisions regarding its capacity requirements and long-term bulk power sales, the Company should bear the corresponding risks of under-recovery. The Commission will not approve this part of Minnesota Power's proposal.

The Commission agrees with the Department that Minnesota Power should report in its next general rate case on the revenues it derives from the capacity sales made available by the Interruptible Rate. This information will allow the Commission to assess the Interruptible Rate discount and to decide if it should be adjusted in the future.

ORDER

1. The Commission approves Minnesota Power's Interruptible Rate proposal. The Commission rejects Minnesota Power's proposed incentive plan.

2. Contracts under the Interruptible Rate proposal shall be signed by the parties on or before July 30, 1993. Customers choosing the Interruptible Rate shall nominate load on or before August 13, 1993.

3. Within 15 days of the date of this Order, Minnesota Power shall file its revised Interruptible Rate tariff, reflecting the terms of this Order.

4. In its next general rate case Minnesota Power shall file a report on the revenues it derived from the capacity sales made available by the Interruptible Rate. The report shall also include information on the number of interruptions which occurred, lead time notices, times of day when interruptions occurred, and other pertinent information regarding the implementation of the Interruptible Rate tariff.

5. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

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